

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

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In the Matter of

**Price Cap Performance Review for
Local Exchange Carriers;
Treatment of Video Dialtone
Services Under Price Cap Regulation**

CC Docket No. 94-1

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**REPLY OF
SOUTHWESTERN BELL TELEPHONE COMPANY**

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Summary*

Subject to SWBT's previous objections to price cap regulation of a competitive video service, SWBT recommends that, in view of the Commission's tentative conclusion to eliminate the backstop mechanisms, the Commission should await the outcome of the other FNPRMs pending before the Commission in this docket before adopting any *de minimis* threshold as proposed here. SWBT urges the Commission to adopt as an interim approach the existing rules for price cap excluded services (*i.e.*, costs equal revenues).

Assuming the Commission proceeds with implementation of the *de minimis* threshold prior to resolution of the other FNPRMs, SWBT finds the comments opposing a reasonable *de minimis* threshold to be misplaced and to reflect a misunderstanding of the price cap safeguards. These safeguards are in place as part of the creation of the VDT price cap basket ordered in the Second R&O, from the inception of a LEC's VDT service, prior to reaching any *de minimis* threshold and prior to implementation of any cost allocation procedures. Any opposition to a reasonable *de minimis* threshold should be handled via petitions for reconsideration of the Second R&O. Certain commenters' claims that there would not be any safeguards against cross-subsidy prior to a LEC reaching the *de minimis* threshold are wrong because they fail to recognize the nature of the price cap safeguards, including, the "new services" pricing test, the price cap on interstate access services, the separate VDT price cap basket, and the lower pricing band on the VDT basket. Similarly mistaken are the contentions that the Commission must adopt accounting procedures for the allocation of costs between VDT

* All abbreviations used herein are referenced within the text.

and telephony services in order for the price cap safeguards to function to prevent cross-subsidy. The pricing constraints of the price cap rules are effective safeguards against cross-subsidy, even before any cost allocation accounting procedures are adopted.

To sidestep the controversial and problematic rate-of-return or investment methods of calculating the *de minimis* threshold, the Commission should adopt SWBT's suggested simple method: when the percentage of households passed in the study area reaches five percent (5%).

Certain commenters' arguments concerning interpretation of Part 36 rules as applied to VDT plant are beyond the scope of the Third FNPRM, and in any event, misconstrue Part 36 Rules. As SWBT explains in this Reply, VDT plant is categorized as Wideband, C&WF Category 2 pursuant to Section 36.152(a) of the Commission's Rules.

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REPLY OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT) hereby submits its Reply to comments filed in response to the Commission's Third Further Notice of Proposed Rulemaking (Third FNPRM)¹ in the above-referenced proceeding. After the Commission decided, in the Second Report and Order (Second R&O),² to establish a *de minimis* threshold beyond which a LEC is required to exclude video dialtone (VDT) costs and revenues from those for telephony for purposes of the price cap backstop mechanisms, the Commission requested comments, in the Third FNPRM, on procedures for implementing that *de minimis* threshold and exclusion.³ The Third FNPRM sought comment on two aspects of such procedures: (1) the level of the *de minimis* threshold and (2) the method of segregating VDT costs and revenues for purposes of the sharing and low-end adjustment mechanisms. A number of the commenters' suggestions are

¹ In the Matter of Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1, Second Report and Order and Third Further Notice of Proposed Rulemaking, FCC 95-394 ¶¶ 39-42 (released Sept. 21, 1995) (Third FNPRM). The first two sections of this order (¶¶ 1-38) are referred to as the Second Report and Order (Second R&O).

² Second R&O, id.

³ Third FNPRM, id. ¶¶ 39-42.

misplaced because either they do not pertain to the two subjects of the Third FNPRM or they dispute issues already decided in the Second R&O or prior Commission rulings.⁴

I. COMMENTS OPPOSING THE *DE MINIMIS* THRESHOLD ARE MISPLACED.

Several commenters question the creation of a *de minimis* threshold or claim that it should be extremely small.⁵ Such questions are misplaced because in the companion Second R&O the Commission has already decided to establish a *de minimis* threshold. Such questions must be addressed, if at all, by means of petitions for reconsideration of the Second R&O.⁶ Claims that the *de minimis* threshold should be set at such a low level that it would be meaningless are similarly misplaced and also should have been filed as petitions for reconsideration. However, to the extent commenters argue for a low, but reasonable, threshold, their comments are within the scope of the Third FNPRM. In SWBT's Comments, SWBT urged the Commission to delay adoption of a *de minimis* threshold because it appears that the

⁴ SWBT addresses some of these misplaced comments later in this Reply. However, SWBT also notes two commenters' clearly misplaced suggestion that Part 64 be amended to include procedures to allocate costs between the regulated video and regulated telephony categories. GSA at 2, 8; Comcast/Cox at 5. In the VDT Recon Order, the Commission already has decided not to amend Part 64. Telephone Company - Cable Television Cross-Ownership Rules, Sections 63.54-63.58 and Amendments of Parts 32, 36, 61, 64 and 69 of the Commission's Rules to Establish and Implement Regulatory Procedures for Video Dialtone Service, CC Docket No. 87-266, 10 FCC Rcd 244 ¶¶ 175, 179-181 (1994) (VDT Recon Order). This suggested overhaul of Part 64 is inconsistent with the function of Part 64 of allocating costs between regulated and nonregulated activities. Part 64 should not be used to allocate costs to specific regulated services or between categories of regulated services.

⁵ See, e.g., California Cable Television Association (CCTA) at 6-11; Comcast Cable Communications, Inc. and Cox Enterprises, Inc. (Comcast/Cox) at 2, 7; General Services Administration (GSA) at 3-5; MCI Telecommunications Corp. (MCI) at 3-5; National Cable Television Association, Inc. (NCTA) at 6-7.

⁶ In fact, MCI and Cox Enterprises, Inc. filed such Petitions for Reconsideration on November 6, 1995.

other FNPRMs in this docket may render any *de minimis* threshold moot, if the backstop mechanisms are eliminated, as the Commission tentatively concluded they should be.⁷

II. EXISTING PRICE CAP RULES ARE SUFFICIENT SAFEGUARDS AGAINST CROSS-SUBSIDY, REGARDLESS OF THE *DE MINIMIS* THRESHOLD.

The commenters' opposition to a reasonable *de minimis* threshold is based upon claims that reflect a misunderstanding of the roles of the *de minimis* threshold and the price cap safeguards. For example, commenters claim that having a *de minimis* threshold would allow LECs to cross-subsidize VDT service.⁸ Similarly, some commenters argue that the effectiveness of the newly-created VDT price cap basket in preventing cross-subsidy is tied directly to procedures for allocating common costs between VDT and telephony services.⁹ These parties do not recognize or do not understand the safeguards against cross subsidization that exist in the current price cap regulatory paradigm.¹⁰

First. The Commission has established a "new service" pricing rule for the LEC VDT service offerings that requires that VDT prices exceed VDT direct costs.¹¹ This test alone

⁷ SWBT at 2-6.

⁸ E.g., Comcast/Cox at 7; MCI at 3-5.

⁹ See, e.g., CCTA at 5-7; Comcast/Cox at 6-8; GSA at 2-4; MCI at 3-4; NCTA at 3-4.

¹⁰ As SWBT contended in its original comments in this proceeding, SWBT does not believe that any price cap regulation is necessary for VDT service given the highly competitive video marketplace and LECs' *de minimis* or nonexistent presence in the video market. However, given that the Commission has decided to so regulate VDT service, SWBT explains in this Reply how existing price cap rules are more than sufficient safeguards against cross-subsidy of any new service, including VDT.

¹¹ For VDT, the Commission defined direct costs to include incremental costs associated with primary plant investment dedicated to VDT, incremental costs associated with shared plant, a reasonable allocation of other costs associated with shared plant, incremental costs for non-primary plant accounts associated with VDT and a reasonable allocation of overheads. Second

assures all interested parties that LEC VDT services are not cross subsidized by any other LEC services. By definition, as long as VDT prices are above incremental costs, no cross subsidy exists.¹²

Second. The basic structure of the LEC price cap plan ensures that LECs do not have the ability to change the prices of any interstate access services as a result of any VDT-related costs they incur. By design, the Commission created a price cap plan where the prices of access services are no longer linked to the specific fully distributed costs previously utilized under rate-of-return regulation.¹³ Thus, except for the current effects on the sharing and low-end adjustments applicable only to certain price cap LECs, VDT costs can have absolutely no effect on LEC access prices.¹⁴

Third. The requirement of a separate basket for VDT ensures that LECs cannot increase the prices of interstate access services to recover revenue reductions associated with reducing VDT prices. Because non-VDT services are in separate price cap baskets, changes in VDT prices do not and cannot affect non-VDT prices. As a result, current access customers will not be affected by VDT price changes.

R&O ¶ 4 & n.8.

¹² See NYNEX at 5. See also 3 ANTITRUST LAWS AND TRADE REGULATION (MB) §§ 21.02[3]-21.03[3] (Sept. 1993); Hovenkamp, ECONOMICS AND FEDERAL ANTITRUST LAW §§ 6.8-6.9 (1985); Areeda & Turner, ANTITRUST LAW ¶¶ 710-722 (1978).

¹³ See In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6791 ¶ 35 (1990) (LEC Price Cap Order).

¹⁴ SWBT supports the elimination of sharing and low-end adjustments for all price cap LECs. Doing so eliminates the last tenuous link between VDT costs and non-VDT prices. In fact, for those LECs that have elected the no sharing option of the price cap plan, there is no linkage at all between costs and revenues.

Fourth. The VDT basket has a lower pricing band that limits the LECs' ability to reduce VDT prices without providing cost support. While SWBT opposes lower pricing band limits in the LEC price cap plan, this constraint currently provides an additional safeguard ignored by several commenters.

Fifth. As the Commission has noted, the actual occurrence of predatory pricing or voluntary pricing below incremental costs is extremely rare.¹⁵ Most parties readily recognize that it would make absolutely no business sense for a LEC to price its VDT services below its incremental costs. Also, the Commission's complaint process¹⁶ and current antitrust laws remain in place.

Clearly, the creation of Part 36/Part 69 cost allocation rules for VDT costs is not necessary to prevent cross subsidization.¹⁷ Commenters that claim that no protection or safeguards exist until LECs are required to comply with some VDT cost allocation rules are completely wrong.¹⁸ These commenters fail to recognize the price cap safeguards described above. Some of them believe incorrectly that a separate price cap basket would not be created until a LEC reaches the *de minimis* threshold. This belief reflects a misunderstanding of the purpose of the *de minimis* threshold. The separate price cap basket for VDT is created at the inception of a LEC's VDT service. It exists before VDT costs reach the *de minimis* threshold

¹⁵ See LEC Price Cap Order, 5 FCC Rcd at 6824 ¶ 309; In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket 94-1, First Report and Order, 10 FCC Rcd 8961, 9139-40 ¶ 409 (1995) (First Report and Order); ANTITRUST LAWS AND TRADE REGULATION (MB) § 21.02[1][a]&[b] (Sept. 1993).

¹⁶ LEC Price Cap Order, 5 FCC Rcd at 6836 ¶ 406; First Report and Order, 10 FCC Rcd at 9059 ¶ 224.

¹⁷ See VDT Recon Order, ¶ 166.

¹⁸ CCTA at 3.

and functions as a pricing constraint unrelated to the level of fully distributed actual costs incurred. The only purpose of the *de minimis* threshold is to determine when VDT costs would begin to be segregated from all other regulated costs for purposes of the sharing and low-end adjustment calculations. The *de minimis* threshold plays absolutely no part in the determination of initial VDT prices pursuant to the "new services" test established for VDT.

The Commission must not conclude that LECs should set VDT prices equal to some arbitrarily defined estimate of fully distributed costs of VDT.¹⁹ Contrary to allegations of some commenters,²⁰ the creation of a separate VDT price cap basket does not require any allocation of costs to the VDT basket. The AT&T price cap plan never required the allocation of costs to baskets. The cable TV price cap plan does not require the allocation of costs to baskets. The LEC price cap plan has no such requirement.²¹ The pricing constraints represented by the price cap baskets are determined based solely on: (1) the existing prices of services; (2) their historical base period demand levels; and (3) the price cap indexes (PCIs).²² Thus, the allocation of VDT costs does not affect prices or demand and has only a miniscule potential effect on PCIs through sharing/low-end adjustments (which should be eliminated consistent with the tentative conclusions in the other pending FNPRMs in this docket).

Deprived of their false assumptions, these commenters' arguments against a reasonable *de minimis* threshold have no foundation and should be rejected summarily.

¹⁹ CCTA at 4.

²⁰ GSA at 4; MCI at 1, 6.

²¹ The only place where FDC costs are used to set prices is in the determination of the maximum subscriber line charges (SLC).

²² PCI are affected by the GDP-PI, the productivity factor (X), exogenous costs and, for the Common Line basket, usage growth.

III. THE *DE MINIMIS* THRESHOLD SHOULD BE BASED SIMPLY ON THE PERCENTAGE OF HOUSEHOLDS PASSED INSTEAD OF PROBLEMATIC RATE-OF-RETURN OR INVESTMENT METHODS.

In adopting the *de minimis* threshold, in the Second R&O, the Commission explained its reasoning as follows:

At this juncture, it appears that many of the LECs intending to provide video dialtone will begin with small systems capable of serving a limited number of households. Thus, in the early years, video dialtone investment for at least certain LECs may well be too small to have a significant effect on the LEC's overall interstate earnings as computed for sharing and the low-end adjustment. We believe that establishment of a *de minimis* threshold can be a much simpler matter than the application of an actual cost allocation methodology for assigning costs to the video dialtone basket for purposes of sharing and the low end adjustment. Thus, until a LEC passes such a threshold, we believe that excluding video dialtone costs and revenues from this calculation is an unnecessary administrative burden.²³

Several commenters recognize these practical and administrative benefits of a *de minimis* threshold.²⁴ The Commission has established analogous thresholds in other contexts in the past.²⁵ While the commenters supporting the *de minimis* threshold agree that it is beneficial, there is no consensus on the method of calculating it. The range of opinions is much wider once one considers the suggestions of those opposed to a *de minimis* threshold.

The comments reflect two primary debates over the *de minimis* threshold method: (1) whether and how it should be based on rate-of-return impact and (2) whether the calculation should include total, as opposed to only dedicated, VDT investment. The parties comment on a number of different pros and cons on these two subjects. While SWBT continues

²³ Second R&O, ¶ 35(emphasis added).

²⁴ See, e.g., AT&T at 3; BellSouth at 2-3; GTE at 5.

²⁵ See NYNEX at 3; First Report and Order, ¶ 251; Joint Cost Order, 2 FCC Rcd 1298, 1308 ¶ 77 (1% of total company revenues for incidental activities).

to believe that the best interim alternative would be to use the existing rules for price cap excluded services (i.e., excluded costs equal revenues), as SWBT explained in its Comments,²⁶ SWBT agrees with those commenters opposing a rate-of-return method as turning the clock back toward rate-of-return regulation.²⁷ SWBT also believes that a method based on total VDT investment would be problematic, even more so than one based on dedicated investment alone. Notwithstanding SWBT's position on these two issues, SWBT recommends that -- assuming the Commission rejects the use of existing rules for price cap excluded services suggested by SWBT in its Comments -- the Commission use the simple method based on percentage of households passed by VDT because it avoids the obstacles presented by the rate-of-return and investment methods. In fact, in adopting the *de minimis* threshold in the above-quoted text, the Commission alluded to a limited number of households as a characteristic of small VDT systems that would have an insignificant effect on sharing and low-end adjustment calculations.²⁸ SWBT's proposed method sidesteps all of the controversy concerning the rate-of-return and investment methods. Besides, it is very simple to administer for both the LECs and the Commission. Aside from other advantages discussed in SWBT's Comments,²⁹ it will be less susceptible to further recurring debate and will minimize the necessity of Commission oversight and monitoring. The CCTA claims that the Third FNPRM's proposed rate-of-return method "is too susceptible to manipulation and regulatory gaming"³⁰ and that both dedicated and VDT investment must be

²⁶ SWBT at 7.

²⁷ See, e.g., Pacific Bell at 2; BellSouth at 2-3 & n.4; U S WEST at 2.

²⁸ Second R&O, ¶ 35.

²⁹ SWBT at 8-10.

³⁰ CCTA at 11.

included in order to reduce “LEC incentives to misallocate direct [VDT] costs as shared costs.”³¹ A method as simple as SWBT’s percentage of households passed cannot be criticized as being susceptible to any such manipulation or misallocation by the LECs.

SWBT’s proposed method is so simple that all it requires is a comparison of the number of households passed by VDT as shown in the VDT Quarterly Report and the total number of working loops in the study area from line 1270 of the ARMIS Access Report (43-04). To illustrate the ease of determining this threshold, a hypothetical calculation is included as Attachment A to this Reply. Once the ratio reaches the five percent (5%) materiality level, the LEC would exclude VDT costs from the price cap backstop mechanism calculations.

IV. THE METHOD OF ALLOCATING PRIMARY PLANT COSTS BETWEEN VDT AND TELEPHONY IS NOT AN ISSUE PRESENTED BY THE THIRD FNPRM.

Several commenters argue allocation issues which are beyond the scope of the Third NPRM. For example, some commenters mistakenly assume that the Third FNPRM is seeking comment on the method of allocating “common costs” between video and telephony for purposes of determining initial VDT prices.³² These commenters fail to understand the limited purpose of the cost segregation procedure which is the subject of the Third FNPRM: to determine how VDT costs are removed from the price cap backstop mechanism calculations. The Third NPRM does not seek comment on the method of allocating shared primary plant costs between VDT and telephony for purposes of a “new services” pricing test because the

³¹ CCTA at 12.

³² See CCTA at 3-4, 14-17; Comcast/Cox at 3-5, 7; GSA at 3; MCI at 7-8; NCTA at 2-6. Cf. US WEST at 3 (VDT “cost allocation issues associated with joint and common investments . . . are not price cap issues. They are Part 32 and Part 36 issues”).

Commission already decided to address that cost allocation issue in individual LEC tariff review proceedings,³³ such as the one currently being conducted for Bell Atlantic's Dover Township tariffs.³⁴ All of the comments concerning cost allocation for VDT "new services" pricing purposes are misplaced and should be made in the context of individual tariff review proceedings.

The Third FNPRM does ask whether the same "new services" approach should be used in determining which VDT costs to remove for sharing and low-end adjustment purposes. However, it is asking whether to borrow the same approach for the sharing and low-end adjustment calculations, not how it should apply the "new services" test to determine initial VDT prices. SWBT and other commenters rejected the Commission's suggestion to use the same "new services" pricing approach in the Part 36/Part 69 context.³⁵

Different cost allocation procedures exist for different purposes. The incremental cost approach used as part of the "new services" pricing test relies on projections of future costs. This is not the proper method to use to allocate costs pursuant to Part 36, which uses a fully distributed cost approach based on actual or historical costs. Because fully distributed costing is used in jurisdictional separations as well as the sharing and low-end adjustment calculations, SWBT agrees with those commenters who properly recommend that the existing

³³ VDT Recon Order, ¶¶ 217-220; In the Matter of the Application of New England Telephone & Telegraph Co., 10 FCC Rcd 5346, 5381 ¶ 68 (1995); In the Matter of the Applications of Pacific Bell, File Nos. W-P-C-6913 *et seq.*, Order and Authorization, 1995 FCC LEXIS 5416 ¶¶ 54, 93, 114 (released Aug. 15, 1995).

³⁴ In the Matter of Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10 Rates Terms and Regulations for Video Dialtone Service in Dover Township, New Jersey, CC Docket No. 95-145, Order Designating Issues for Investigation (released Sept. 8, 1995).

³⁵ See, e.g., AT&T at 7-9.

fully distributed Part 36 rules should be used.³⁶

V. COMMENTERS MISINTERPRET PART 36 SEPARATIONS PROCEDURES APPLICABLE TO VDT PLANT.

While SWBT agrees with the commenters who favor the use of existing Part 36 procedures, SWBT does not agree with the interpretation of Part 36 espoused by some commenters. For example, SWBT does not agree with the Comcast/Cox's contention that existing rules would categorize VDT network costs as Category 1 loop plant and assign it predominantly to intrastate.³⁷ Under the current Part 36 rules, VDT plant will be categorized as Wideband, C&WF Category 2 and not as Category 1 loop plant.³⁸ Contrary to Comcast/Cox's claim that the "failure to prescribe procedures for allocating costs between Category 1 and Category 2 has left this decision entirely to the discretion of individual LECs . . .," current Part 36 rules dictate that VDT plant be placed in Category 2. Once VDT plant costs are placed in Category 2, direct assignment between jurisdictions is performed.³⁹ Part 36 assignment of circuit equipment costs follows the assignment of the C&WF costs.⁴⁰ Thus, the level of VDT investment assigned to Part 69 and used in segregating VDT costs for purposes of the sharing and low-end adjustment calculations can be determined through the use of the proper existing Part 36 procedures explained above.

³⁶ See, e.g., Bell Atlantic at 1-3; SNET at 4; cf. BellSouth at n. 5.

³⁷ Comcast/Cox at 4, 6.

³⁸ Compare 47 C.F.R. § 36.152(a)(1) ("Exchange Line C&WF *Excluding Wideband* -- Category 1") with 47 C.F.R. § 36.152(a)(2) ("*Wideband and* Exchange Trunk C&WF--Category 2"); 47 C.F.R. Part 36 Appendix (Definition of "Wideband Channel").

³⁹ 47 C.F.R. § 36.155(a).

⁴⁰ 47 C.F.R. § 36.126(c)(1).

Contrary to GSA's and Comcast/Cox's misinterpretation, Part 36 does not specify the use of bandwidth in assigning costs to jurisdictions. Both parties misconstrue the "conductor cross section" method required by Section 36.153(a)(1)(i).⁴¹ For example, this conductor cross section analysis requires the LEC to "determine in terms of equivalent gauge the number of pairs in use or reserved, for each category."⁴² "Equivalent gauge" is defined as "a standard cross section of cable conductors for use in equating the metallic content of cable conductors of all gauge to a common base."⁴³ The use of "equivalencies" in these assignment rules refers to copper weight/cost equivalencies. Fiber facilities do not use an equivalency in developing categorized cost. In any event, bandwidth allocations are not representative of cost causation. The cost of facility link (either copper or fiber) is not proportionate to the number of customers served or the bandwidth delivered. Likewise, the cost of equipment units which divide the total capacity of the facility into channels does not change in direct proportion to the number of channels created or the bandwidth of those channels.

The Commission should reject the misinterpretations of Part 36 reflected in certain comments, such as those of GSA and Comcast/Cox. Besides, the purpose of the Third FNPRM was not to seek comments on the interpretation of existing Part 36 rules. Any clarification or modification of Part 36 rules should be left to a comprehensive review of Part 36, and should not be conducted on a piece-meal, service-specific basis.

⁴¹ 47 C.F.R. § 36.153(a)(1)(i).

⁴² 47 C.F.R. § 36.153(a)(1)(i)(A) (emphasis added).

⁴³ 47 C.F.R. Part 36 Appendix (emphasis added).

VI. CONCLUSION

SWBT's Reply is subject to (1) SWBT's continuing objections to price cap regulation of a competitive video service and to the exclusion of VDT costs and revenues for purposes of the price cap backstop mechanisms and (2) SWBT's preferred recommendation to await the outcome of the other FNPRMs before adopting any *de minimis* threshold because it will be unnecessary in the absence of any backstop mechanisms. In the interim, the Commission should use the existing rules for price cap excluded services. Subject to SWBT's objections and preferred alternatives more fully described in SWBT's Comments herein, if the Commission proceeds to establish a *de minimis* threshold at this time, it should be based on the percentage of households passed rather than the controversial methods debated in the comments filed in this proceeding. Also, it is not necessary for the Commission to amend or interpret any existing rules in order to segregate costs (once the *de minimis* threshold is exceeded) for purposes of the sharing and low end adjustment calculations because existing Part 36 procedures will suffice. In sum, the Commission should reject the misplaced and unwarranted suggestions of commenters discussed in this Reply, and adopt the recommendations set forth in SWBT's Comments filed in this proceeding.

Respectfully submitted,

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November 17, 1995

SOUTHWESTERN BELL TELEPHONE COMPANY**VDT THRESHOLD CALCULATION EXAMPLE**

As a hypothetical example, the following assumptions and resultant calculation illustrates the method being proposed:

STEP 1

- *Total Number of households passed by VDT system deployment in all wire centers = 50,000*

Total number of households passed by each VDT system is one of the items of information that the Commission is requiring in the VDT Quarterly Report 43-09A as indicated in Paragraph 41 of the Memorandum Opinion and Order adopted September 29, 1995 (Reporting Requirements on Video Dialtone Costs and Jurisdictional Separations for Local Exchange Carriers Offering Video Dialtone Services, DA 95-2026, AAD 95-59).

STEP 2

- *Total number of Working Loops in the Study Area = 8,000,000*

Total Number of Working Loops is obtained from Line 1270 of the FCC Report 43-04 ARMIS Access Report. Line 1270 is defined on page 15 of 66 of the Column Descriptions attached to the Order adopted February 4, 1991 and released February 13, 1991, In the Matter of Revisions of ARMIS Report 43-04 (The Access Report).

STEP 3

CALCULATION: Number of households passed by VDT in the Study Area
 divided by
 Total Working Loops in the Study Area
 $50,000 / 8,000,000 = .00625 * 100 = .6\%$

Given that the result derived from the above example falls below the 5% benchmark being proposed by SWBT, the *de minimis* threshold is not met. This illustrates an insignificant level of VDT deployment within a study area that would be well below the threshold requirement.

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "Reply Comments Of Southwestern Bell Telephone Company" in Docket NO. 94-1 has been filed this day of November, 1995 to the Parties of Record.

A handwritten signature in cursive script, reading "Katie M. Turner", is written over a horizontal line.

Katie M. Turner

November 20, 1995

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